



CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

SESSION TWO:

BOND DOCUMENTS AND DEBT SERVICE

RICHARD MORALES
DEBT MANAGER
SAN FRANCISCO PUBLIC UTILITIES
COMMISSION

SEAN TIERNEY
PARTNER
HAWKINS DELAFIELD AND
WOOD LLP

California Debt and Investment Advisory Commission:

BOND DOCUMENTS AND DEBT SERVICE



Sean Tierney, Partner

October 24, 2013
Oakland, California

First Bond Counsel Questions for a Bond Financing

1. What type of entity are you?
2. What are you financing?
3. How are you paying debt service?
4. AKA: Who is the borrower, what is the project and how are you going to pay it back?

Additional Bond Counsel Questions

4. Does the law restrict your ability to borrow (e.g., Debt Limit)?
5. Does the law expressly authorize you to borrow?

Presentation Outline

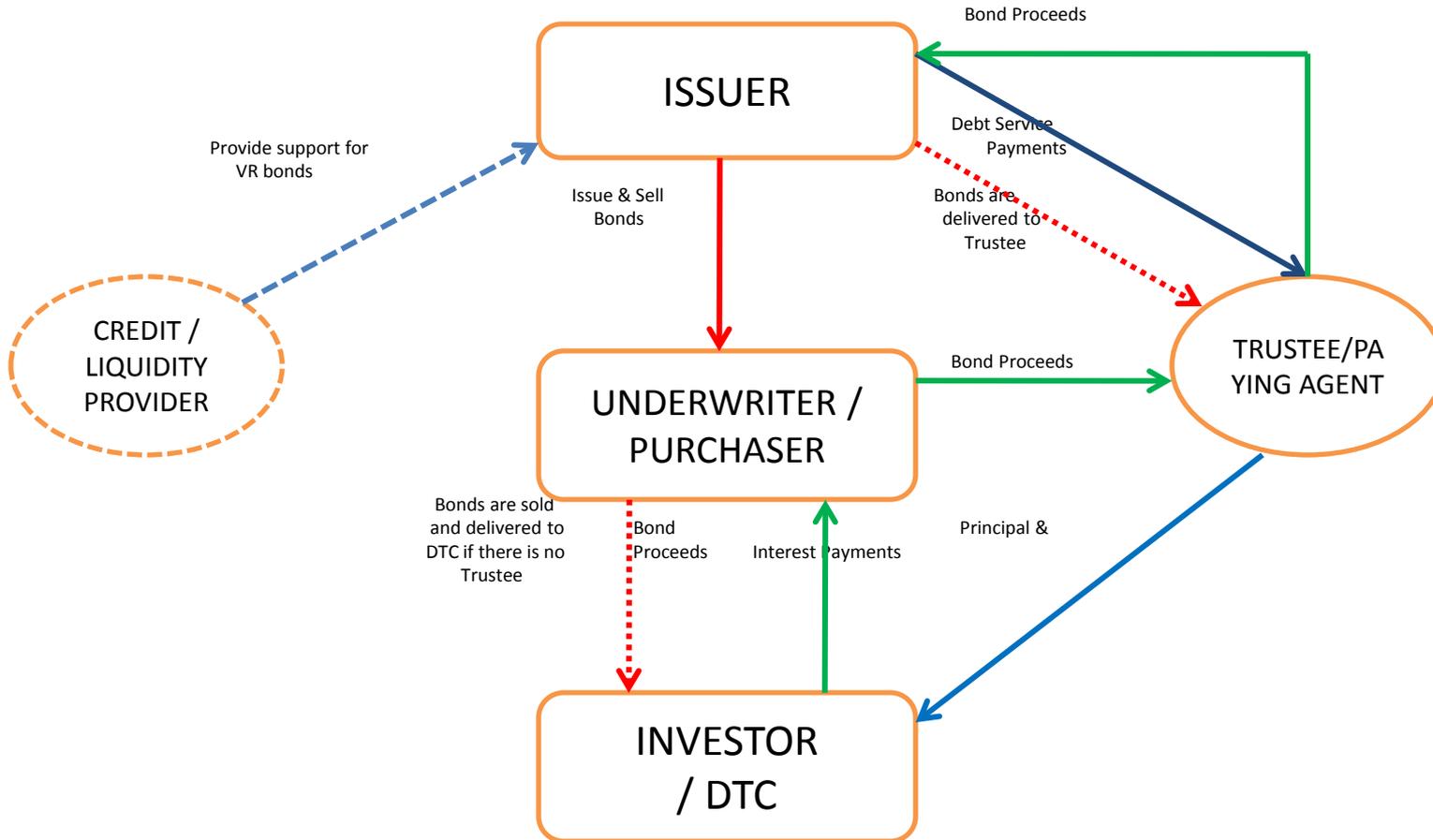
1. Parties to Traditional Bond Financings
2. Bond Documentation for Traditional Financings
3. Water Enterprise Bond Financings

1. PARTIES TO TRADITIONAL BOND FINANCINGS

Summary of Traditional Financing

- Fixed rate, 30-year, negotiated or competitive sale.
- Issuer issues and sells bonds.
- Bonds are sold to an underwriter (vs. a purchaser in a competitive sale).
- Bonds are subsequently sold to investors.
- Issuer makes payments of principal and interest to investors through a paying agent or trustee.

b. Parties to a Traditional Financing



2. BOND DOCUMENTATION FOR TRADITIONAL FINANCINGS

Traditional Financing Documents

- Authorizing Ordinances or Resolutions
- Indenture, Trust Agreement, Paying Agent Agreement or Bond Resolution
- Loan Agreement, Financing Agreement, Facilities or Project Lease (for transactions with conduit issuers or counterparties)
- Tax Certificate
- Official Statement
- Bond Purchase Contract
- Continuing Disclosure Certificate
- Closing Certificates, Documents and Opinions
- For Refundings: Verification Report
 Escrow Agreement

Alternative Financing Documents

- Competitive Sale: Notice of Sale and Notice of Intent to Sell
- Variable Rate Bonds: Reimbursement Agreement and Remarketing Agreement
- Private Placement / Direct Placement:
 - Master Loan Agreement
 - Private Placement Agreement
 - Investor Letter
 - Continuing Covenant Agreement

Bond Indenture

- Variations: Trust Agreement, Fiscal Agent Agreement, Paying Agent Agreement, Bond Resolution or Bond Ordinance
- Parties: Issuer and Trustee / Paying Agent / Fiscal Agent (Issuer only for Ordinances or Resolutions)
- Purpose: Sets forth terms and conditions of the bonds and provides for the security pledged for repayment of bonds

Con't. Bond Indenture

■ Critical Provisions to Review:

- Pledge of Collateral
- Representations, Warranties & Covenants
- Principal and Interest Rate Provisions
- Redemption / Prepayment
- Reserve Fund Requirements
- Conditions re: Additional Debt (Parity, Senior or Subordinate)
- Rate Covenants
- Default and Remedy Provisions
- Defeasance Provisions
- Insurance
- Permitted Investments (investment of bond proceeds)

Loan Agreement

- When Required: Applicable law makes it necessary or desirable to have a conduit issuer issue the bonds or another counterparty involved (e.g. lease-lease-back to nonprofit corporation)
- Variations: Financing Agreement, Installment Sale Agreement, Facilities or Project Lease
- Parties: Nonprofit Corp, JPA and Borrower
- Purpose: Sets the terms and conditions under which the Issuer lends bond proceeds to the Borrower or otherwise provides for the project being financed

Con't. Loan Agreement

- Critical Provisions to Review:
 - Representations, Warranties and Covenants
 - Use Restrictions
 - Special Covenants
 - Pledge of Collateral Provisions
 - Title Provisions
 - Abatement Provisions (in leases) and Other Remedies (re-letting, re-entering, termination, damages)
 - Insurance Requirements

Tax Certificate

- Variations: Tax Regulatory Agreement, Arbitrage Certificate
- Parties: Issuer (also Borrower, for conduit financings)
- Purpose: Sets forth conditions for Issuer (or Borrower) to satisfy requirements of the IRS for tax-exempt treatment of bonds
- Critical Provisions to Review:
 - Representations and Warranties – Rebate and Arbitrage
 - Sources and Uses of Proceeds
 - Various provisions depending on type of issue – consult Bond Counsel (private use, refunding, etc.)
 - Tax Compliance Program

Continuing Disclosure Certificate

- Variation: Continuing Disclosure Agreement
- Parties: Issuer (also Dissemination Agent (usually the Trustee) for Continuing Disclosure Agreements)
- Purpose: Sets forth Issuer's reporting obligations to bondholders under Rule 15c2-12
- Critical Provisions to Review:
 - Contents of Annual Reports
 - Listed Notice Events
 - Filing deadline of Audited Financial Statements, Annual Reports and Listed Events

3. WATER ENTERPRISE BOND FINANCINGS

a. Key Considerations

- **Security for bonds**: Revenues, (e.g., rates and charges)
- **Financing Options**: (i) Revenue Bonds, (ii) Installment Sale Agreements, (iii) Other Alternatives (e.g., G.O. Bonds, Assessment Bonds, Mello-Roos Bonds)
- **Additional Debt**: Parity, Senior, Subordinate Structure
- **Operating Covenants**:
 - Maintain system in good repair and working order
 - Charge and collect for products or services provided by the System
 - Negative pledge
 - Insurance
 - Covenant not to sell the System

Con't. Key Considerations

■ Financial Covenants:

- Rate covenant
- Allocation of revenues (“waterfall” for O&M, Debt Service and Other Uses)
- Additional Debt Test – Parity, Senior or Subordinate Structure
- Debt Service Reserve Fund

■ Annual Appropriation Provisions

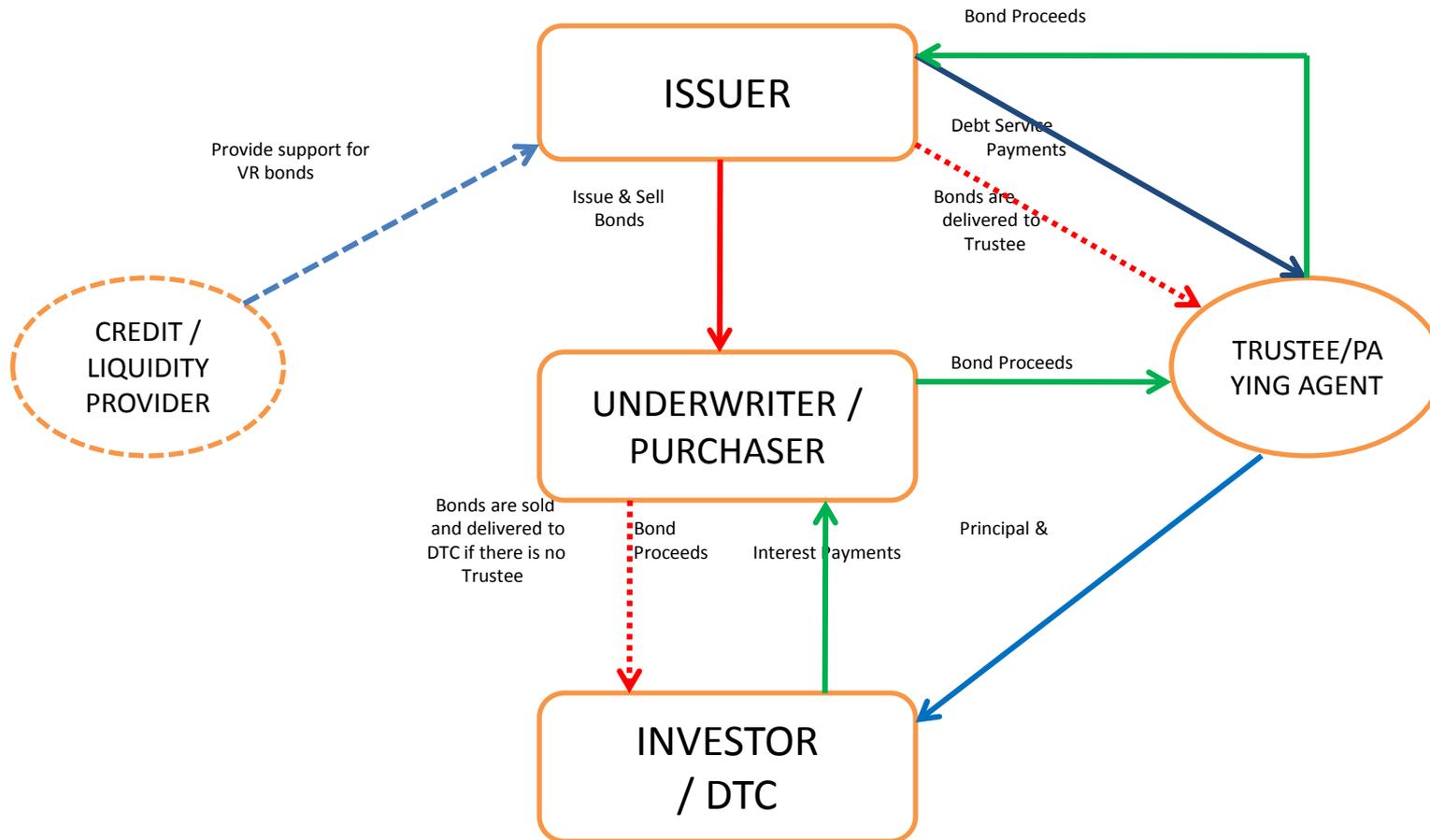
■ Rate Stabilization Fund

■ Remedies: lien on revenues

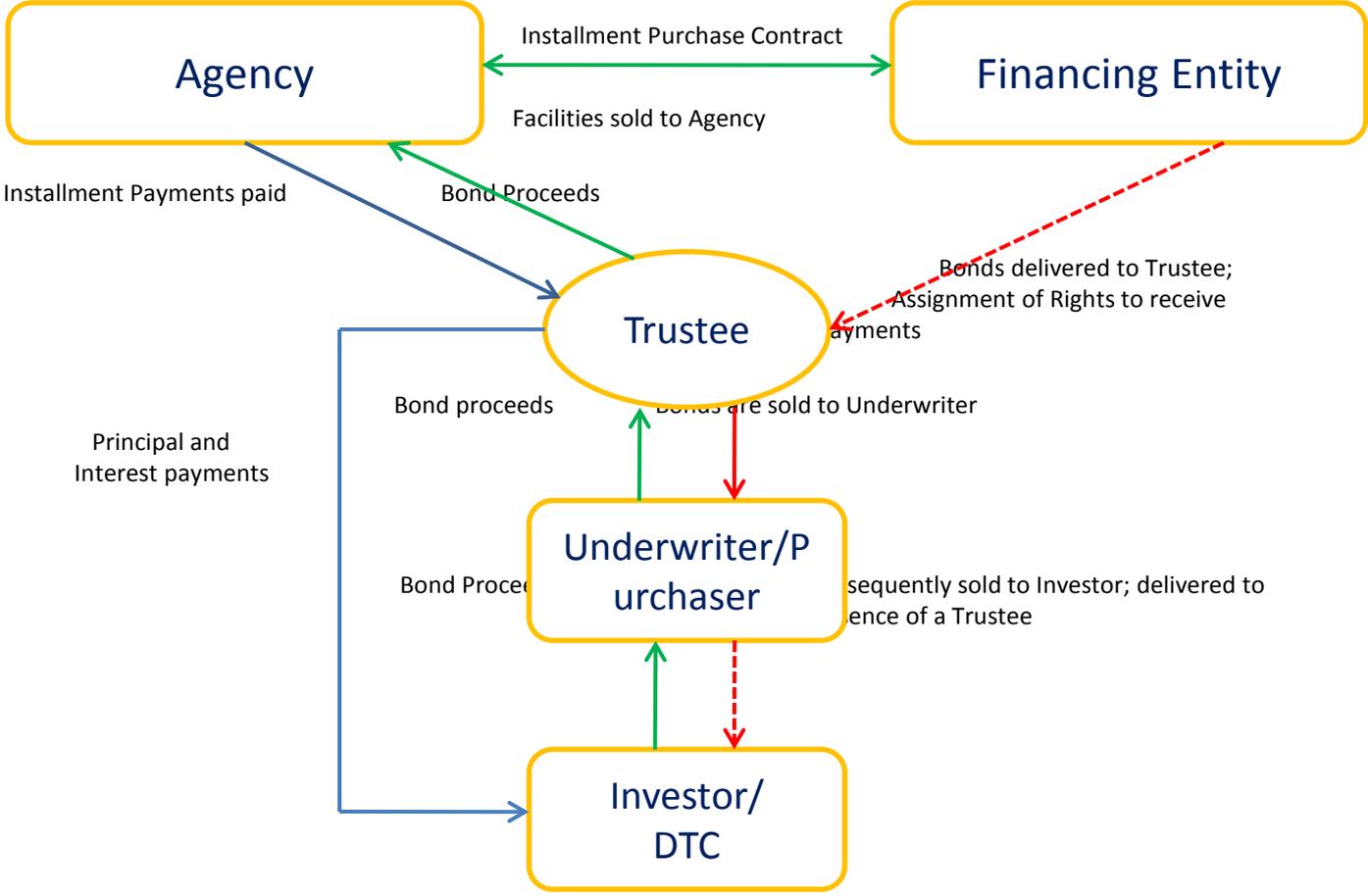
b. Comparing Financing Structures

	Revenue Bonds	General Obligation Bonds	Installment Purchase Agreement
Voting Requirement	May require approval of majority voters within service area	2/3 voter approval	No voter approval required
Documents	Indenture	Resolution or Ordinance	Installment Purchase Contract
Security	Revenues from the Enterprise	<i>Ad valorem</i> taxes of Issuer	Revenues from the Enterprise
Covenants	Financial Covenants	Limited; Tax Law	Financial Covenants
Additional Debt	Parity Obligations, Senior Obligations, Subordinate Obligations	Generally no restrictions on additional debt	Parity Obligations, Senior Obligations, Subordinate Obligations

C. Parties to a Water-Enterprise Financing (Indenture Structure)



Parties to a Water-Enterprise Financing (Installment Purchase Contract)



Thank You



Sean Tierney
Hawkins Delafield & Wood LLP
San Francisco, California
(415) 486-4200
stierney@hawkins.com
www.hawkins.com

“Issuing Debt...Before, During and After”



**Presented by
Richard Morales, Debt Manager
San Francisco Public Utilities Commission**

October 24, 2013

Presentation Outline

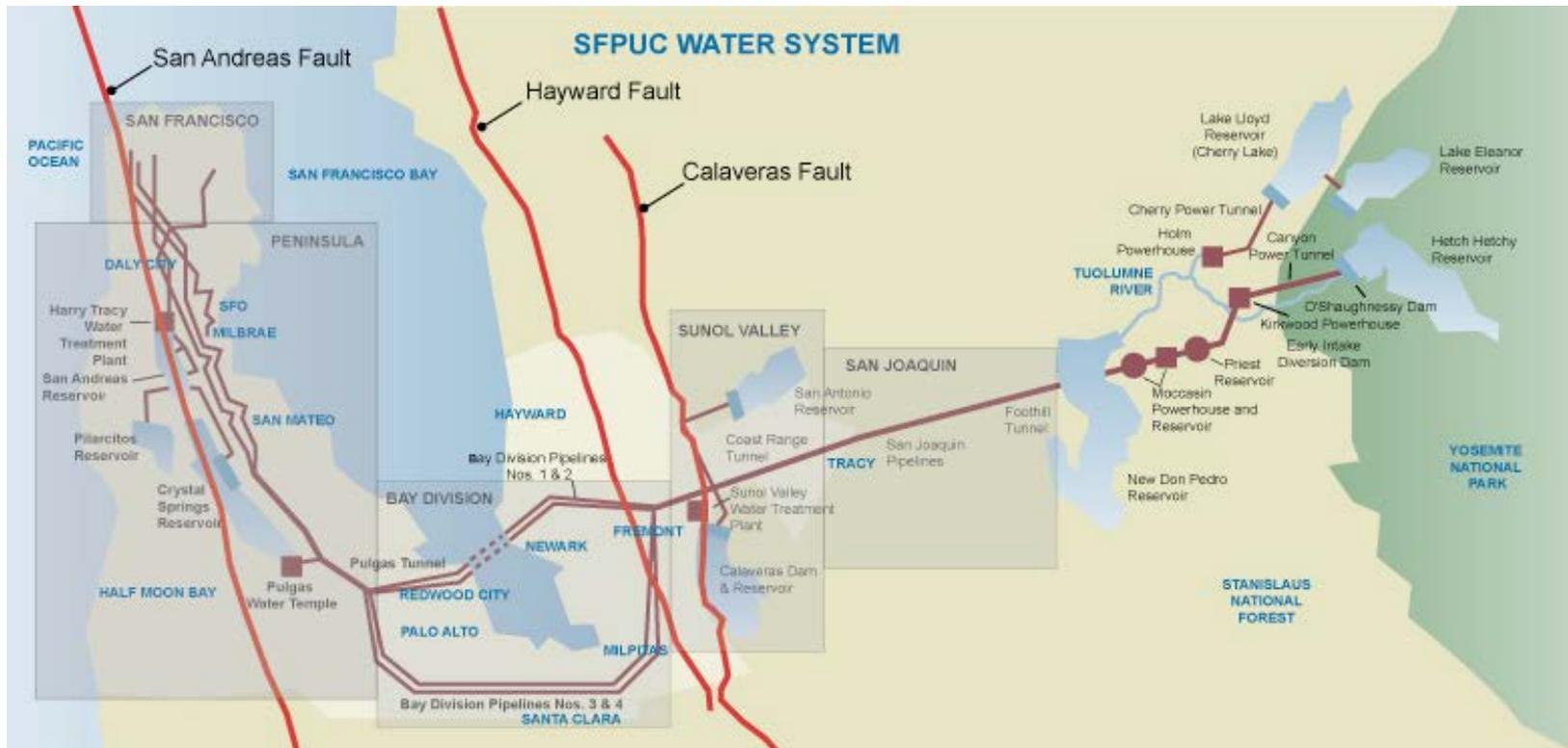
- Overview of SFPUC
- What is “Debt Service”?
- Issuing Debt...Before
- Issuing Debt...During
- Issuing Debt...After
- Conclusion
- Questions and Contact Info

SFPUC Overview

- \$889M annual budget
- Water Enterprise
 - Provides water to 2.5 million people in SF Bay Area
 - Retail provider to San Francisco residents / businesses
 - Wholesale provider to 27 agencies
- Wastewater Enterprise
 - Combined wastewater and stormwater collection system
- Power Enterprise (17% of total SF demand)
 - Provides hydroelectric and other renewable energy for SF City government buildings, traffic signals, streetlights, transit, SFO

SFPUC Water System – Sierra Nevada to Bay Area

- Water rights include >400 MGD from the Sierra Nevada Mountains
- Hetch Hetchy watershed provides 85% of water needs
- Alameda and Peninsula watersheds provide 15% of water needs





SFPUC Outstanding and Projected Debt

SFPUC Outstanding Revenue Bonds (\$000s) As of September 1, 2013		Bond Ratings
Water	\$4,200,650	AA- / Aa3 / Stable
Wastewater	764,550	AA- / Aa3 / Stable
Power	18,911	Not Rated
Total	\$4,984,308	

SFPUC Projected Debt Issuance (\$000s) FY 2013-14 to 2022-23	
Water	\$793,311
Wastewater	4,835,054
Power	268,595
Total	\$5,896,960

What is “Debt Service”?

- Legal obligation to pay principal and interest on certain payment dates for incurred debt
 - Maturity of debt can vary – less than 1 year to 30+ years
 - Typically level annual debt service
 - Primarily tax-exempt, but can be taxable
 - Will include ancillary ongoing charges – trustee, rating agencies, arbitrage rebate compliance
- Debt service obligation governed by certain key legal documents
 - Indenture, Trust Agreement, or Resolution – similar documents
 - Tax Certificate
 - Continuing Disclosure Agreement
 - Official Statement

What is “Debt Service”? – Continued

- What does “debt service” fund?
 - Capital project costs
 - Reserve Fund
 - Capitalized Interest
 - Costs of Issuance
 - Par amount of debt greater than project funding needs
- Types of California debt issuances
 - General Obligation Bonds (ad valorem property taxes)
 - Revenue Bonds (Enterprise net revenues – water, sewer, power)
 - Certificates of Participation (COPs)/Lease Revenue Bonds (General Fund pledge)
 - Assessment District/Community Facilities District (tied to real estate development)

What is “Debt Service”? – Continued

- How does it get paid?
 - Determine pro forma debt service schedule
 - Set rates and charges (if revenue credit), millage (if GO ad valorem tax), etc., as appropriate
 - Budget for expenditure – get appropriation
 - Determine schedule for spending of proceeds
 - Issue debt – transfer funds to Trustee/Fiscal Agent
 - Monitor spending of bond proceeds – keep good records

What is “Debt Service”? – Continued

Debt Service Schedule

Period Ending	Principal	Coupon	Interest	Total Debt Service
9/1/2012	\$ -		\$ -	\$ -
9/1/2013	205,000.00	1.55%	275,659.90	480,659.90
9/1/2014	235,000.00	2.15%	241,250.00	476,250.00
9/1/2015	240,000.00	2.60%	236,197.50	476,197.50
9/1/2016	250,000.00	2.75%	229,957.50	479,957.50
9/1/2017	255,000.00	3.10%	223,082.50	478,082.50
9/1/2018	265,000.00	3.40%	215,177.50	480,177.50
9/1/2019	270,000.00	3.60%	206,167.50	476,167.50
9/1/2020	280,000.00	3.90%	196,447.50	476,447.50
9/1/2021	295,000.00	4.10%	185,527.50	480,527.50
9/1/2022	305,000.00	4.25%	173,432.50	478,432.50
9/1/2023	315,000.00	4.30%	160,470.00	475,470.00
9/1/2024	330,000.00	4.35%	146,925.00	476,925.00
9/1/2025	345,000.00	4.45%	132,570.00	477,570.00
9/1/2026	360,000.00	4.55%	117,217.50	477,217.50
9/1/2027	375,000.00	4.65%	100,837.50	475,837.50
9/1/2028	395,000.00	4.75%	83,400.00	478,400.00
9/1/2029	415,000.00	4.85%	64,637.50	479,637.50
9/1/2030	435,000.00	4.95%	44,510.00	479,510.00
9/1/2031	455,000.00	5.05%	22,977.50	477,977.50
	\$ 6,025,000.00		\$ 3,056,444.90	\$ 9,081,444.90

What is “Debt Service”? – Continued

Net Debt Service Schedule

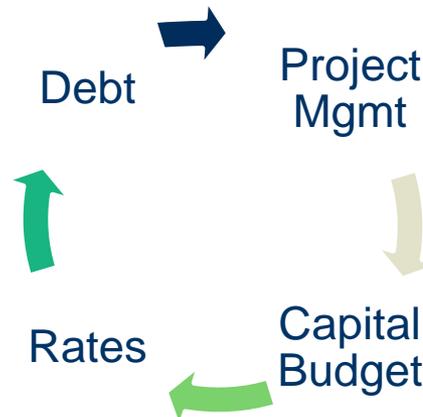
Period Ending	Total Debt Service	Debt Service Reserve		Net Debt Service
		Fund Interest Earnings	Capitalized Interest	
9/1/2012	\$ -	\$ 2,716.42	\$ 1,557.87	\$ -
9/1/2013	480,659.90	21,258.92	284,458.60	170,668.09
9/1/2014	476,250.00	21,258.92	-	454,991.08
9/1/2015	476,197.50	21,258.92	-	454,938.58
9/1/2016	479,957.50	21,258.92	-	458,698.58
9/1/2017	478,082.50	21,258.92	-	456,823.58
9/1/2018	480,177.50	21,258.92	-	458,918.58
9/1/2019	476,167.50	21,258.92	-	454,908.58
9/1/2020	476,447.50	21,258.92	-	455,188.58
9/1/2021	480,527.50	21,258.92	-	459,268.58
9/1/2022	478,432.50	21,258.92	-	457,173.58
9/1/2023	475,470.00	21,258.92	-	454,211.08
9/1/2024	476,925.00	21,258.92	-	455,666.08
9/1/2025	477,570.00	21,258.92	-	456,311.08
9/1/2026	477,217.50	21,258.92	-	455,958.58
9/1/2027	475,837.50	21,258.92	-	454,578.58
9/1/2028	478,400.00	21,258.92	-	457,141.08
9/1/2029	479,637.50	21,258.92	-	458,378.58
9/1/2030	479,510.00	21,258.92	-	458,251.08
9/1/2031	477,977.50	501,918.82	-	(23,941.32)
	\$ 9,081,444.90	\$ 887,295.80	\$ 286,016.47	\$ 7,908,132.63

Issuing Debt...Before

- A lot happens before issuing debt
- Debt planning is an interactive, dynamic effort for SFPUC staff:
 - Project/Program Management staff – definitely not Finance people
 - Capital Budget staff – Finance people, but not necessarily Rates or Debt people
 - Rates staff – Finance people, but not necessarily Budget or Debt people
 - Debt staff – Finance people, but not necessarily Budget or Rates people
 - Much coordination needed between above groups
 - But for smaller agencies, can be more centrally-controlled process
- Planning process can precede actual debt issuance by months or years
- Culminates with formal approval/authorization of debt issuance

Issuing Debt...Before – Continued

- Dynamics of debt planning process
 - What capital project(s) need to be funded
 - Cost of project(s)
 - When are funds needed
 - How much funded by borrowing (debt) versus cash (pay-as-you-go)
 - What is impact on ratepayers (or taxpayers)
- Again, debt planning is an interactive, dynamic process



Issuing Debt...During

- Now that you know what, when and how much to finance, you can start debt issuance process
- Assemble your external debt issuance team – financial advisor, bond/disclosure counsel, trustee, underwriter
- Prepare financing schedule
 - Generally takes 3 to 6 months to issue
- Draft legal financing documents, including Preliminary Official Statement
- Obtain bond ratings – generally 2 to 3 ratings used
- Pre-market debt sale
 - Investor relations very important
- Price bonds – competitive or negotiated sale
- Close – usually 2 to 3 weeks after pricing

Issuing Debt...After

- Remember – after issuance, you still need to live with debt for a long time
- Most of your external team leaves after debt issue closes – it's just you and your trustee left to administer debt
- What's left to do after debt issuance? – a lot!

- Ongoing Accounting / Budget Administration
 - Debt funds need to be properly accounted for in financial books
 - Must review funds and accounts and flow of funds with Accounting staff to represent debt profile accurately
 - Also need to accurately report debt in annual financial statements
 - Accounting staff don't necessarily know debt – you may need to work closely with them
 - Make sure you budget each year for correct debt service – gross and net
 - Your annual appropriation must reflect what needs to be paid that year

Issuing Debt...After – Continued

- Ongoing debt administration
 - Major effort if you have lots of debt outstanding – like SFPUC
- Internal control systems
 - Debt database – SFPUC has “Debt Map” of all outstanding debt – updated after new debt issuances or refundings / prepayments
 - Payment tickler system – SFPUC also has online “Debt Payments Calendar” that prompts timely processing/payment of debt service
- Trustee relationship is key
 - Establish strong, collaborative work relationship with Trustee
 - This assures accuracy and timeliness of debt payments

Conclusion

- Incurring debt can be complex, lengthy process
- It takes a village to issue debt – internally and externally
- Should be a well-guided process
 - Legal and tax regulations – listen to your bond counsel
 - GFOA “best practices” – very useful and keeps you current
 - Internal “Debt Policies & Procedures” – highly recommended
- Issuing debt is not an event, it’s a process
- You’re in it for the long haul!

Questions?

Thank You